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A REVIEW OF POWER PROBLEMS OF REA-FINANCED FEDERATED
COOPERATIVES IN SOUTHWESTERN POWER ADMINISTRATION AREA

1. Background of Problems

In 1949 and 1950, REA made loans, in the approximate aggregate amount of \$75,000,000, to federated cooperatives in Missouri and Oklahoma for the construction of electric generating and transmission facilities. The federated cooperatives entered into contracts with the Southwestern Power Administration of the Department of the Interior for the sale and exchange of power and energy and the leasing of transmission facilities to SPA with an option to SPA for the purchase of the leased facilities. The performance of these contracts was dependent upon a so-called "continuing fund" which, as a result of Congressional action for fiscal 1952, was made subject to annual Congressional authorizations as to the amounts to be made available to SPA for purchase of power and energy and payment of rentals under the contracts above referred to.

In the Interior Department appropriation for fiscal 1954, there was a Congressional directive that no part of that year's continuing fund authorization was to be used "for the purpose of implementing existing contracts with REA cooperatives which provide for the lease-purchase of transmission or generating facilities."

As a result of the foregoing Congressional directive, the federated cooperatives invited the power companies in the area to a meeting in Springfield, Missouri, on October 1, 1953, to discuss the working out of a permanent solution of their power supply problem which would eliminate the need for resorting to Interior's continuing fund or other Federal appropriations. REA representatives attended this meeting at the request of the cooperatives. There was general agreement expressed at the meeting as to the desirability of such a permanent solution as the objective of the negotiations which would be initiated following the meeting. Since the federated cooperatives are located in different areas served by different companies, it was decided at the meeting that the negotiations would be carried on in smaller groups by the companies and cooperatives which had common service areas.

Following the Springfield meeting the cooperatives and the companies in the various areas exchanged correspondence and held a number of meetings with respect to the basic principle which should govern the permanent solution. REA did not take part in these meetings although, in a general way, it was kept informed of developments.

Representatives of the federated cooperatives continued negotiations both with the commercial companies and with the Interior Department in regard to interim arrangements. While these representatives of the cooperatives were in Washington during January, they requested Mr. Ancher Nelsen, as REA Administrator, to take an active part in their negotiations with the commercial utilities and formalized this request with a letter, dated January 29, 1954.

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On February 26, 1954, at a meeting in Jefferson City, attended by Mr. Nelsen and Mr. Fred Aandahl, Assistant Secretary of Interior, the boards of directors of the Missouri federated cooperatives again requested that REA take an active part in the negotiations of the permanent solution and Mr. Nelsen agreed to make REA personnel available for this purpose. At this meeting, also, the status of the negotiations in each case was reviewed and Mr. Aandahl suggested that a meeting be arranged which would be attended also by all the commercial companies involved.

Such a meeting was held by Messrs. Nelsen and Aandahl on March 15, 1954, at Kansas City. Mr. Nelsen expressed REA's concern with the problems involved and assured the cooperatives of full REA assistance in the carrying on of negotiations for the permanent solution. Plans were made at that meeting for individual area meetings of cooperatives and commercial companies in which REA representatives would render active assistance.

2. Objectives of REA's Endeavors

The following excerpt from Mr. Nelsen's address to the Missouri Rural Electrification Association at Jefferson City on February 26, 1954, stated the following REA objectives in the negotiations for a permanent solution:

"The arrangements which have been in effect between certain of your federated cooperatives and SPA had been made dependent upon annual appropriations for the continuing fund by the Congress. They involve a lease-option provision under which title to the transmission facilities would eventually pass to the Government. The Congress, as a matter of national policy, determined that this was not a correct approach and directed that the situation be re-examined and negotiations be started towards a different type of approach -- a permanent solution which would eliminate features of the previous arrangement which were deemed objectionable.

"Any such long-range solution must recognize the established position of the electric cooperatives as part of the total power picture in the Southwest. The cooperatives themselves have much to gain from a solution which would end dependence on annual appropriations to SPA, eliminate the lease-option provision, and enable the cooperatives to make their power situation secure into the future by combining self-generation and negotiated arrangements of their own choice.

"In other words, you have the opportunity to protect fully your sources of power. You can assure yourselves of access to both hydro and steam power over your own transmission lines. You would thus be independent of the Government and of the commercial power companies as well.

"As an incidental but nonetheless important by-product, a permanent solution on a sound basis would bring peace in an area where the

power situation has long been harassed by controversy. Such a peaceful solution merits our best efforts. I do not see how anyone can oppose it unless he overlooks the basic strength of the cooperative's position or has something to gain from a continuance of controversy."

3. The Means Proposed to Accomplish the REA Objectives

In general, it is thought that the integration of all the electric systems in the area, including the facilities of the federated cooperatives, the companies, and SPA, and the effective use of the Government's peaking hydro electric power and energy will result in providing an adequate supply of low cost power to the cooperatives and encourage wide-spread use of electric power and energy in the rural areas served by the cooperatives.

At the present time, the negotiations contemplate, as a means of effectuating such integration, that the cooperatives will purchase peaking hydro electric power and energy from the Interior Department, sell it to the commercial companies, together with the output of the cooperatives' thermal generating plants, and will buy back from the commercial companies the electric requirements of their member cooperatives. It is also contemplated that the federated cooperatives will make available to the companies surplus transmission capacity which might exist from time to time on the cooperatives' systems and the companies may make available to the cooperatives surplus transmission capacity on their systems for the use of the cooperatives.

4. Complexities Faced in Negotiations

(a) The necessarily large number of parties engaged in and affected by these negotiations constitutes a factor which tends to slow down the progress of negotiations. The following is a list of the federated cooperatives and the commercial companies which are negotiating together because of their interest in a common area:

Western Farmers Electric Cooperative	--- Oklahoma Gas & Electric Co. Public Service Co. of Oklahoma
Central Electric Power Cooperative	--- Sho-Me Power Corporation Union Electric Co. of Missouri Missouri Power & Light Co.
N. W. Electric Power Cooperative	--- Kansas City Power & Light Co. St. Joseph Power & Light Co. Missouri Public Service Co.
KAMO Electric Cooperative	--- Empire District Electric Co. Missouri Public Service Co.
M & A Electric Power Cooperative	--- Arkansas-Missouri Power Co. Arkansas Power & Light Co.

We understand that, by agreement of the federated cooperatives, the negotiations, while carried on separately in the areas and between the groups listed above, must result in a solution acceptable to all before any of the individual solutions will be finally accepted.

(b) The task of evaluating the economic factors involved and determining the usefulness to the various parties of the elements contributed by each to the whole is difficult. Before the final power cost to the federated cooperatives can be determined, all of these economic factors will have to be considered and a determination made by the Administrator, in accordance with his responsibility under the Rural Electrification Act, that the proposed solution will result in payment of all the loans within the time agreed.

(c) Interconnections of the utility systems involved require extensive engineering studies to determine the power flow and the extent to which each component system can be used under all types of operating conditions.

(d) The interconnections of the cooperatives' facilities with those of the commercial companies to provide the most economic use of each will require new construction for some of which the cooperatives plan to request REA financing. Studies with respect to the availability of such loans under the terms of the Rural Electrification Act will have to be made.

(e) One of the important elements in the determination of both the physical arrangements and the economic factors is the amount of hydro electric power and energy, both peaking and surplus, which will be available to the cooperatives for distribution in accordance with the contracts to be negotiated. This problem is particularly difficult because there is apparently less hydro power and energy available than would be required to meet the needs of the respective claimants, including some preference customers outside the group of the federated cooperatives involved in the permanent solution negotiations, but included in the present service area of SPA.

(f) Similarly, the rates to be charged for the hydro electric power and energy will have an important bearing upon the nature of the permanent solution ultimately effected. Involved in this problem is the necessity for approval by Federal Power Commission of such rates, as well as the determinations by the Interior Department in the first instance with respect thereto. The existing rate schedules of SPA would not appear to be applicable to the present situation in view of the fact that the permanent solution does not contemplate operation and maintenance of the cooperatives' facilities or use of these facilities by SPA for delivery of the hydro power and energy. In this connection, the House Appropriations Committee directed in its report on the Interior Department Appropriation Act for the fiscal year 1955 that SPA shall sell power and energy only at rates approved by the Federal Power Commission should be noted.^{1/}

^{1/} In a letter, dated January 29, 1954, Assistant Secretary Aandahl stated that 100,000 kw of hydro capacity with 175 kwh per kw per month of energy would be made available to the federated cooperatives at a rate of 5.25

(g) It is recognized by all of the parties that some arrangement is necessary for the interim period prior to the putting into operation of the permanent solution. While estimates vary as to the amount of time which will be required, it has been agreed by the parties in two of the major groups involved in the negotiations that at least a year will be required to accomplish the physical construction necessary for the interconnections and to make effective the contracts, including the obtaining of the necessary regulatory body approvals. Accordingly, funds are required to enable SPA to continue its present arrangements with the federated cooperatives involving the purchase by SPA of thermal energy from the cooperatives' generating plants and the payment of wheeling charges by SPA in connection with the transmission of energy over the cooperatives' systems. The problem (both from a physical, as well as a financial, viewpoint) has been made more difficult by the necessity encountered by the cooperatives of assuming responsibility for operation of their facilities and establishing the necessary operating crews and purchasing necessary equipment. No REA loan funds had theretofore been made available for such purpose since the cooperatives had relied upon SPA's assuming the operation of the cooperatives' facilities. The necessity for determining what funds might be diverted from other purposes for this use and the resulting loan studies have contributed materially to the complexity of the problem.

(h) The question of the use of the cooperatives' transmission facilities both by the cooperatives and by the companies presents some problems. On the one hand, the cooperatives are concerned that their own facilities may not be used by the companies to serve loads which might otherwise have been served by them or their member distribution cooperatives. On the other hand, the companies are concerned that any economies in power costs to the cooperatives made possible by integration of the companies' facilities with the cooperatives' systems shall not be used by the cooperatives to compete unfairly with the companies. This question touches upon the broader problem of what provisions, if any, are to be included in the contractual arrangements between the companies and the cooperatives with respect to the kinds of consumers and types of service to be supplied at the standard rates. In general, the cooperatives' position has been opposed to provisions which in any way interfere with their service to persons eligible to be served under the state laws under which they were incorporated and the Federal act pursuant to which they were financed.

5. Resume of Individual Group Negotiations

- (a) Central Electric Power Cooperative, Sho-Me Power Corporation -- Union Electric Co. of Missouri, Missouri Power & Light Co.

1/ Continued

mills per kwh. Secretary Aandahl's letter, however, points out the necessity for confirmation and approval of such rate by the Federal Power Commission before it is effective. Moreover, preliminary negotiations with the companies indicate that the quantity of hydro electric power referred to in Secretary Aandahl's letter will not be sufficient to enable the companies to quote satisfactory rates to the federated cooperatives.

Following several meetings for background purposes and exchange of information as to the physical facilities involved, representatives of Central, Sho-Me and REA met with the representatives of Union and MP&L on March 18, 1954, in Jefferson City, Missouri, to discuss certain figures prepared by Union with respect to the costs and values to be placed upon the various elements involved in the integration proposed to be effected. It was also agreed at the meeting that both parties should prepare contract drafts which would be exchanged prior to the next meeting on April 20, 1954, at Jefferson City. At this meeting, the points of agreement and disagreement between the drafts of contract prepared by the cooperatives and the companies were noted. The principal points to be resolved related to (i) the question of operation and maintenance of the cooperatives' facilities by the companies or by Central and the payments to be made in connection therewith; (ii) the rate to be charged by the companies for power and energy to be furnished Central and Sho-Me; (iii) the dual rate for industrial loads over 50 kw proposed by the companies; and (iv) the facilities to be constructed to effect the interconnection of the systems of the companies and Central.

Representatives of Union, MP&L, Central, Sho-Me and REA met in St. Louis on May 4 and 7 to discuss engineering problems in connection with the interconnection and the tentative rate and capacity use charges to be contained in the next draft of contract. At the May 7 meeting the importance of securing more information concerning the terms of the proposed hydro power contracts between Central and Sho-Me and SPA was stressed by Union, particularly as to such points as reservoir storage provisions to permit flexibility in scheduling by the companies and provision similar to the Brazos Power Cooperative, Texas Power and Light Co. - SPA arrangements for Whitney Dam power to cover situations of hydro power shortage.

Representatives of the companies, Central, Sho-Me, REA and Interior met in St. Louis on May 24, 1954 and reviewed a new draft of contract prepared by Union. In addition to a number of minor changes which had been agreed upon at prior meetings, the new draft proposed a substitute for the dual rate provisions for industrial loads over 50 kw. Under the proposed substitute, if Central or the member cooperatives serve industrial loads over 50 kw at rates not less than the companies' published rates, there would be no additional charge. Only if Central or its member cooperatives served such loads at less than the companies' rates would Central be obligated to pay an additional charge to Union, which would be equal to the difference between such rate of Central or its member cooperatives and the companies' published rate for such load.

On the same day, there was a meeting of engineers to consider the results of a network analysis study and other technical matters relating to the proposed interconnections. The next general meeting will be scheduled in the near future after the companies submit a detailed rate schedule to be added to the contract draft.

(b) N. W. Electric Power Cooperative -- Kansas City Power & Light Co.

After a number of meetings between representatives of N. W. and Kansas City Power & Light Co., a meeting was held on April 19, 1954, in Kansas City

attended also by REA representatives, at which a draft of contract previously submitted by N. W. to the company and a draft prepared by the company were discussed. The points of agreement and disagreement between the two drafts were noted. The principal points to be resolved related to (i) the rates to be charged by the company for power and energy furnished N. W.; (ii) a dual rate for industrial loads, without further definition, which was proposed by the company; and (iii) the facilities to be constructed to effect the inter-connection of the systems of the company and N. W.

Representatives of N. W., Kansas City P & L Co. and REA met in Washington on May 10, 11 and 13 (representatives of KAMO, Empire District Electric Co. and Missouri Public Service Co. also being present at the May 13 meeting). A new company draft was discussed, with particular attention being given to the arrangements for service to KAMO. Tentative agreement was reached that the arrangements for Western Missouri would be embodied in the following system of contracts:

1. N. W. and KAMO would contract jointly for the purchase of hydro power from SPA;
2. N. W. and KAMO would contract jointly for the sale to Kansas City P & L Co. of the hydro power purchased from SPA;
3. Kansas City P & L Co. would contract to purchase N. W.'s steam capacity; sell to N. W. continuous power and energy and obtain the use of the 161 kv N. W. line;
4. KAMO and N. W. would, subject to company concurrence, contract as to their respective shares of the hydro power and the total block of power which Kansas City P & L Co. is to make available under these arrangements;
5. Kansas City P & L Co. would contract with Empire and Missouri Public Service to provide for the sale of power to KAMO;
6. Empire and Missouri Public Service would contract for the sale to KAMO of continuous power and energy and the use of the KAMO 69 kv facilities.

In these meetings, company representatives also stressed the desirability of having made available to them, as soon as possible, more information as to the nature of the proposed SPA-cooperative hydro contracts in order to permit the negotiation of the company-cooperative contracts to proceed without delay.

The next meeting was held on May 25 at Joplin, Missouri, attended by representatives of Kansas City Power & Light Co.; Empire, Missouri Public Service., N. W., KAMO, REA and Interior. After considerable discussion, the contractual arrangements listed above were confirmed as the framework on which negotiations should proceed. In addition, a small working committee was appointed to prepare a proposal to Interior for (a) the use of the Interior facilities in connection with the contemplated integration of company and cooperative systems,

and (b) the purchase of the hydro power and energy by the cooperatives. The committee is scheduled to meet in Kansas City on June 1.

On May 27, representatives of Kansas City P & L Co., N. W., REA and Interior met in Kansas City and discussed the company draft of contract further. The company indicated a willingness to withdraw from its position on the dual rate provision if it could be assured N. W. would not resort to selling industrial loads at rates below cost. The company undertook to prepare a new draft of contract for discussion at a meeting of the board of directors of N. W. to be held on June 11 at Cameron, Missouri, prior to the next joint meeting.

(c) KAMO Electric Cooperative -- Empire District Electric Co., Missouri Public Service Co.

Following meetings and correspondence beginning in November 1953, between KAMO and the companies, a draft of a proposed contract was submitted by KAMO to the companies several days prior to a meeting held on April 19 in Kansas City, attended by representatives of KAMO, REA and the companies. This draft was reviewed at the meeting and commented on by the parties. The major points to be resolved related to (i) whether Empire District or Kansas City Power & Light Co. should be the supplier of power to KAMO; (ii) the rate to be charged for power and energy furnished KAMO; (iii) a dual rate for industrial loads without further definition, which was proposed by the companies; (iv) the question of operation and maintenance of the cooperative's facilities by KAMO or the companies and the payments to be made in connection therewith; and (v) the facilities to be constructed to effect the interconnection of the systems of KAMO and the companies.

At meetings in Joplin on May 6 and in Washington on May 13, progress was made toward resolving the first and third of the preceding points. The companies submitted a draft of "protective provision" which eliminated the dual rate for industrial loads and merely limited the cooperative's operations to those authorized by the Missouri Electric Cooperative Act. At the joint meeting with N. W. on May 13 referred to under N. W., it was agreed that Empire and MPS should supply KAMO under the system of contracts described above. The question of operation and maintenance of the cooperative's facilities was left to be determined in connection with the rate and capacity charges.

At a meeting on May 11 at the Department of the Interior, the question of the place of SPA's Springfield-Carthage line and the Carthage-Clinton-Springfield substations of SPA in the proposed integration of KAMO's and the companies' systems was discussed. Interior Department representatives agreed to supply information to the companies and KAMO concerning investment in these facilities and interest and depreciation rates to enable a proposal to be made for their use.

At the joint meeting in Joplin on May 25 referred to above under the N. W. section, the investment and related information as to the SPA facilities was supplied for use of the committee appointed to develop a proposal to be made to Interior. As stated above, the committee's first meeting is scheduled for June 1 in Kansas City.

On May 26, representatives of Empire, Missouri Public Service Co., KAMO, REA and Interior met in Joplin. A comprehensive engineering report on the interconnections was considered and accepted. This report provides a basis for the technical exhibits to be included in the contract between the companies and KAMO. A new draft of contract, prepared by a committee of lawyers for the cooperative and the companies on May 19, was also reviewed at the Joplin meeting on May 26 with a number of minor revisions being agreed upon for incorporation in the next draft. At the next meeting to be held in the near future, the companies propose to have available technical exhibits for the new draft of contract and an analysis of estimated operation and maintenance costs for KAMO's facilities.

(d) Western Farmers -- Oklahoma Gas & Electric Co., Public Service Co. of Oklahoma.

Beginning on November 20, 1953, with a letter from Western to the companies, correspondence was exchanged between the parties and several meetings were held which resulted in the preparation of a draft of contract by O G & E Co. and another draft of contract by Western, which became the subject for discussion at a meeting in Oklahoma City on April 6, 1954, attended by representatives of O G & E and Public Service Co. of Oklahoma, Western, and REA. The contract drafts were reviewed at this meeting, the points of agreement and disagreement between the drafts were noted, and arrangements were made for additional meetings of engineers to prepare detailed information for the exhibits to be included in the subsequent drafts of the proposed contract. The principal points to be resolved related to (i) the quantity and rate of hydro power to be obtained by Western from Interior; (ii) the question of operation and maintenance of the cooperative's facilities by the companies or by Western and the payments to be made in connection therewith; (iii) the question of completion of the remaining portion of the Western system; (iv) the rate to be charged by the companies for power and energy furnished Western; (v) the dual rate for industrial loads over 75 kva proposed by the company for that small portion of Western's loads which are served directly from the company system; and (vi) the facilities to be constructed to effect interconnection of the systems of Western and the companies.

After the April 6 meeting, negotiations were postponed pending development of further information concerning the quantity and rate of hydro power to be made available by Interior. Although these matters have not been completely resolved, Western has scheduled a meeting for June 7, 1954 to consider technical matters relating to the interconnection.

(e) M & A Electric Cooperative -- Arkansas-Missouri Power Company, Missouri Utilities Co.

Although M & A's arrangements with SPA differed from those of the cooperatives mentioned above, M & A has been included in the negotiations with the companies because of its geographic location and the possibility that interconnections with the companies may offer economies. Meetings have been held between representatives of the companies and M & A which have not been attended by REA

representatives. A meeting is scheduled for June 7 in Little Rock, Arkansas, with representatives of the companies, including Arkansas Power & Light Co., M & A, REA and Interior.

6. Conclusion

The cooperatives and the commercial companies (and the large number of people dependent upon them for adequate and economical power supply) have, it is clear, a vital and important stake in the bringing to an end fruitless and costly controversy and in achieving a permanent, mutually advantageous solution of their power supply problems by the most effective utilization of all of their facilities in conjunction with the facilities of the Federal Government in the area. As indicated in the foregoing review, very encouraging progress has been made by these interested parties to date, not only in defining objectives, in outlining the general pattern within which agreement will be sought and in identifying particular points and areas of difference, but also in the substantive negotiation of various aspects of a long-term solution. There is urgent need, however, for going on with the utmost expedition in order to achieve the necessary specific solutions and agreements. This will require, among other things, diligent and intensive efforts by all parties to go forward with and complete the definite analyses and studies prerequisite to definite rate and facility-use charge proposals. The remaining areas of difference need to be approached with the appropriate spirit of good faith and compromise for their resolution. Finally, the progress made to date, as well as the agreed upon vital importance of achieving these permanent solutions, justifies and calls for a single-minded and concentrated adherence to the current negotiations on the part of all parties. Diversion or diffusion of efforts on the part of any part of either group in order to gain some supposed advantage in the negotiations will, it is hoped, be avoided as being prejudicial to the sound progress and possibly to the complete success of the negotiations.

It is recognized that the Government, as respects both REA and the Interior Department, has similarly vital stakes in the expedition and success of the negotiations looking toward the permanent solution. Accordingly, REA has been taking an active interest, at the request of the cooperatives, as indicated in this review, in the course of the negotiations and will continue to do so.

It is essential, of course, that the Government take whatever specific steps and action may be shown to be desirable or necessary to assist in bringing about the final settlement. Included in such action on the part of the Government is the prompt determination by the Interior Department of the maximum amounts of hydro power which may be made available to the respective negotiating groups, as well as the rates to be charged and the other applicable terms. Similarly, it will be incumbent upon REA to consider, with the utmost expedition, the questions necessarily involved in connection with any REA approval of arrangements proposed by its borrowers as affecting its interests as lender and whatever new loan applications may grow out of the proposed integration of the cooperatives' facilities with those of the commercial companies. Moreover, since there is general agreement that considerable time must necessarily, even

with the utmost diligence being exercised by all the parties, elapse prior to putting into effect the new arrangements, it is recognized that the interim arrangements between the cooperatives and Interior will have to be continued and appropriate funds provided therefor. Involved in this action would be a recognition of the essentially emergency nature of the action thus required. The terms of such interim agreements would not necessarily be such as would be justifiable in and of themselves. They would, presumably, be such as to reflect, rather, action designed to expedite the transition by the federated cooperatives from the original arrangements to the agreed long-range solution.

These encouraging negotiations have, insofar as the cooperatives are concerned, been undertaken on their own initiative. Tentative decisions thus far made, such as those with respect to the scope and limitations of proposed contractual agreements, have been their decisions with REA acting in an advisory capacity (with due regard, of course, for REA's security and program interests). It is, of course, proper that this should be the case. This course of action will continue without any effort on the part of REA to dictate the specific terms of any agreement which may be reached between the negotiating parties.

The wholehearted dedication by all of the parties - cooperative, commercial companies, and the Government - in achieving the mutually advantageous objective represented by the proposed permanent solution cannot fail to bring about the most effective and economic utilization of their power facilities for the greatest benefit of the consumers of the area.



